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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR THE APPROVAL OF ITS 2013 – 2017 RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN	**DOCKET NO. E-01345A-12-0290 AND E-01345A-10-0394** **COMMENTS OF THE ARIZONA SOLAR ENERGY INDUSTRIES ASSOCIATION'S (AriSEIA)**

AriSEIA would like to thank the Commission for the opportunity to provide comments on the 2013 Arizona Public Service REST Implementation Plan. As we have noted in previous filings, Arizona's Renewable Energy Standard and Tariff (REST) has been a tremendously successful program. Arizona's REST has significantly improved Arizona's energy future; it has provided our state with a more diverse and reliable power supply, greater grid stability, and has lessened the need to build new power plants which have a significant rate impact on Arizona ratepayers. The major byproducts of the REST have been job creation, clean electricity, and significant energy savings to consumers, all of which translate into a better economy and an improved energy outlook for all of Arizona.

We generally agree with the Staff Report, which provides a modest level of market stability for each of the sectors. We believe that it is good policy to continue progress toward the ultimate 15% REST goal while there are strong federal incentives scheduled to expire in a few years.

Arizona Corporation Commission
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APS November 15th, 2012 Comments on Staff's Recommended Opinion and Order

AriSEIA was quite disappointed in recent filing by Arizona Public Service which called for the Commission to end DG incentives in 2013. In past filings, AriSEIA has congratulated APS for the respectful manner in which they have openly communicated with the industry in implementing the solar programs that have made APS a national utility leader in the use of solar energy. Unfortunately, with this filing APS abruptly changes course and without warning asks for the complete elimination of DG incentives, a move that would have disastrous effects on Arizona's solar energy industry and the future of solar energy in Arizona.

Arizona's solar industry has successfully driven down the installed cost of photovoltaic systems to the point where we are on the precipice of grid parity in all markets. To abandon solar incentives now would amount to building the solar industry 80% of the way, only to remove support before it can stand on its own. If adopted by the Commission, APS's proposed DE Option 1 would pull the rug out from the solar and renewable energy industry, unravel the gains that have been made, and set back Arizona's energy outlook for years to come, all at a time when momentum and federal support are at their peak. Further, it would send a message to the world that Arizona cannot be relied upon for regulatory certainty which would lead to millions of investment dollars going elsewhere.

APS states that cash payments are no longer needed to incent DE, however not all segments of the industry have yet achieved the incredible cost reductions that residential PV have been able to accomplish. In fact as we will note later in these comments, the outlook for continued cost reductions for residential PV is uncertain with changing conditions the industry.

The most certain outcome from the elimination of DG incentives in APS service territory would be the substantial loss of jobs in Arizona in the PV and Solar Heating and Cooling industry as well as in the other technologies that have benefitted by the REST programs at APS. This would further result in the loss of companies and technical talent that will create a void to fill in future years. Solar power's role in Arizona's future energy needs would be reduced substantially, contradicting the vision put forth by APS in their Integrated Resource Plan (IRP).

In their filing, APS states that they have commissioned a report to better understand the "true costs and benefits" of DE. After the report is issued, APS proposes to call a series of conferences to analyze the cost of solar. This process has been undertaken in other parts of the country and was commissioned by APS in the RW Beck study that they mention in their filing. AriSEIA supports the concept of a comprehensive cost benefit analysis of net metering and determining the true value of solar to Arizona ratepayers; however we must question APS's current approach. AriSEIA and our members have been active participants in the APS stakeholder process since its inception, so we welcome honest dialogue on how best solar should be implemented in Arizona. However, APS's proposed course of action essentially leaves members of the solar industry in limbo while they hold a four month long conference to analyze the cost of DG to the utility. Furthermore, we believe that it would be much more advantageous and transparent if the Commission were to choose a third party to perform the study with stakeholders providing input and participation in the process rather than having a regulated utility perform the study. Arizona ratepayers deserve an unbiased comprehensive look at the value of solar and a transparent process that will satisfy all stakeholders involved. Any report of this significance should be conducted through the ACC with a broad range of stakeholder's in order to be credible.

Least Cost Approach

AriSEIA must take exception to staff's least cost approach to distribution of REST resources. Arizona has successfully developed solar programs via a model that sought to maintain the market size for a technology while lowering incentives where appropriate. Staff's suggestions for a least cost approach would direct excess funding to technologies that have already experienced substantial cost reductions through financial innovations and economies of scale. However, this would be done at the expense of other markets and technologies that are still gaining market share, and are on the verge of similar cost reductions. In other words, the race to be the lowest cost resource is ongoing. We have always maintained that it is unwise to choose winners and losers before the race is over.
In addition this approach does not respect the aggressive non-refundable deposit program implemented in 2012. This program cancels projects as soon as 30 days after award notification. Allocating funds from these cancelled projects undermines the purpose of the deposit program and punishes the non-residential market for taking actions to improve the effectiveness of the incentive program. AriSEIA recommends maintaining the existing fund reallocation program, which keeps funds from cancelled projects in their original segment.

Residential PV incentives

The residential PV market has been one of the real success stories of Arizona's REST. In 2009, Arizona Public Service saw just under 1500 residential solar water heating and photovoltaic systems installed in their service territory for the year. The following year, roughly the same number of applications were received in the first quarter alone, causing concern that funds would be exhausted in a matter of months. This overwhelming demand, coupled with the industry's ability to lower the cost of installed systems through economies of scale set the stage for a declining incentive level with continued demand from the public. Today, we are installing more residential PV with less REST surcharge funds than ever before.

The vast majority (82%) of residential PV systems in APS service territory are financed through a lease model and not directly purchased by homeowners. However, uncertainty is on the horizon for the PV industry. Many of our members report to us that it is becoming more and more difficult to sell and lease systems with the $0.10/ watt incentive. Changes to the tax structure that enabled leases, the end of the 1603 Treasury Grant Program, the trade war and coming tariffs, and the overall shakeout in the PV industry have created uncertainty and led to concerns that the cost reductions we have seen in the past may be untenable. Some suggest that overall prices could rise slightly rather than continue to decline.

Because of these concerns, we urge the Commission to maintain the residential PV incentive at $0.20 per watt for 2013. Doing so will enable a more robust residential PV sector to continue providing competition in the market place that will set the stage for a stronger industry to serve Arizona in the coming years. We also urge the Commission to budget the residential PV incentives in four tranches so that the funding for the program can be spread out throughout the year.

Residential Solar Water Heating

AriSEIA supports APS's Option 2 funding levels of $3 Million for solar water heating. AriSEIA however believes that solar water heating should have its own funding category with that level of funding. The Staff report suggests that the REST has only been successful with regard to one technology, PV. It should be noted that from the very beginning, PV was the technology that was expected to see price decreases due the nature of the technology. PV technologies can be compared to the semiconductor and electronics industry where economies of scale have been effective lowering prices. However, solar water heating is more like the auto industry where it is more challenging to lower prices through economies of scale. While gains have been made in installation and permitting costs, price increases in copper, aluminum and other manufactured components of solar water heating system have made it difficult for the industry to lower prices.

AriSEIA maintains that while residential solar water heating has been making strides, lowering the incentive to $0.40 would set back the technology at a time when it is beginning to gain greater acceptance. AriSEIA urges the Commission to maintain the residential solar water heating incentive at $0.50 at this point in time.

Track and Record

There may be a point in the near future where we will transition to a point where ratepayers choose to install residential PV systems without incentives. In fact, some homeowners are choosing that option at the current level of residential PV incentives. Arizona's REST rule requires utilities to meet their REST goals by purchasing the RECs that are generated by solar energy systems. This has been in the form of either an up-front payment or a production based incentive, paid over time. When ratepayers choose to forego the incentive, they maintain ownership of the RECs generated by their renewable energy system, and therefore by definition, these RECs do not contribute to the utilities' meeting their REST goals.

The APS "track and record" method of counting generation would invalidate the integrity of the renewable energy credit (REC). Customers who install solar are making an investment, part of which is an investment in the RECs that are generated by the system. These RECs are the property of the system owner and the integrity of the RECs should be maintained in the methodology that is developed to ensure compliance with the REST. If APS is allowed to get "credit" for this renewable generation, then the RECs no longer have any value to their owner, who could otherwise sell them on the open market. This ability to sell RECs on the open market is a critical tool to the industry to enable certain projects to move forward. Thus, APS' proposed system is akin to taking property from their rate payers without compensation.

Other proposals that link REC exchange to interconnection, rate riders or net metering would also have a negative impact on the integrity of the RECs or the solar industry in general. Maintaining an incentive of $0.20/ watt will have the effect of encouraging most who install residential PV systems to accept the incentive allowing the utility to count their RECs towards compliance. This will allow time to develop a policy that will assure that REST goals are being met, yet maintain the integrity of the RECs owned by the customer. Track and Record will invalidate customer's RECs and take customers private property without compensation

AriSEIA has worked closely with SEIA and other stakeholders on this matter and will continue to play a role in the development of a policy that is legal, fair to the utility and ratepayer and maintains REC integrity, and does not deny individuals their property rights without compensation.

Recently, APS has called for a technical conference on Net Metering and the value of solar. We agree with the suggestions of the Solar Energy Industries Association (SEIA) that this technical conference would be the best place to have the discussion of accounting for compliance.

Community Solar Program

In our September 26th comments on the APS 2013 Implementation Plan, AriSEIA conditionally supported APS' proposed 25 MW Community Solar program. AriSEIA requested that APS and the Commission agree to establish a similar sized Community Solar program that third parties can develop. Under this proposed program, unregulated third-party developers would be eligible to enroll Customers in an APS-guided Third-Party Community Solar rate. This rate would allow third-party system owners, or Customer-owned systems, to enroll in a Community Solar rate similar to Xcel Energy's Solar*Rewards Community program. A program such as this would be a competitive market based program that will help continue to lower the cost of solar in Arizona.

AriSEIA proposed that the Commission direct APS to enter into a dialogue with the solar industry and stakeholders to develop a proposal to bring to the Commission such a program. AriSEIA believes this process could lead to a third-party community solar program that would help develop large projects without cost to the ratepayer.

Small Generators Program

APS indefinitely suspended its Small Generator program for wholesale solar projects, despite pursuing a 200-MW AZ Sun program. According to APS, it was due to the fact that customer-sited DG programs were generating greater interest than expected. This has made APS the only player in the wholesale solar market despite the fact that there are many companies willing to play a role in that market. While we do not oppose APS ownership of solar generation, we feel that this private market for wholesale generation should not be ignored. The resumption of the Small Generator Standard Offer program will continue to expand this market segment in Arizona.

Qualified Solar Installer (QSI) program

AriSEIA supports APS's proposal for a Qualified Solar Installer (QSI) program. The Arizona ratepayer has benefitted significantly from this program which has raised the bar for solar installation in APS service territory. We feel that the QSI program is an important consumer protection tool that holds the solar industry to the highest standards in solar installation and sales and is a significant value to ratepayers.

In fact, the QSI program coupled with the APS inspection program for solar water heating systems have greatly improved the quality of solar water heating systems in the Phoenix area. AriSEIA proposes that the Commission explore the possibility of a statewide effort for continued education and training of solar installers. This could be achieved through a collaborative process of Arizona utilities, the industry, and other stakeholders. Insuring that solar energy systems are installed by qualified technicians and properly represented to the customer throughout the sales process is a worthy exercise and should be maintained.

Negative impacts - E-32L rate class

The Arizona Corporation Commission took a leadership role in unanimously sanctioning the sale of solar services to non-profit third party off-takers. In so doing, the Commission created an energy related sector in Arizona that is ripe with beneficial competition. This competition has created a scenario where schools that want to implement solar to save on operational costs and invest more money in the classroom can put out a request for proposal (RFP) and be inundated with responses from qualified solar service providers, each one seeking to perform their services for less than the other. This ACC mandated competition in this very limited commercial solar sector has been a bright spot for our State and for those seeking increased competition, even in just a limited sense, in the monopoly controlled energy sector. As many Commissioners will recall, this move had wide ranging support from the Goldwater Institute all the way to the Sierra Club.

Unfortunately, the recent change to the E-32L rate class threatens to undermine the successes reached through this very limited competition based energy related service. The ACC's leadership has been undone by a perhaps unintentional change to this rate class. The result of this change is to essentially kill the competitive segment of solar providers to schools, the segment the ACC sanctioned with great results, while strengthening the monopoly's hold on this segment. This is unfair, bad public policy, and must be undone."

These recent dramatic change to the E-32L rate caused an unintended negative impact for 26 large schools and 86 total commercial customers already having solar energy systems. This rate structure certainly does not reflect the true value of distributed solar energy, which can be as low as a 3 cent per kwh savings on a customer's bill. This change has negated the energy savings for schools and other users in this rate class and deterred a large number of projects from being developed by third party developers. What was once a good investment for Arizona schools and other businesses has turned into a liability for many users of solar energy. There were many AriSEIA members operating in this market that now has been unintentionally eliminated. Third party investment in this market segment has been eliminated by this rate change.

We understand that APS is seeking to undertake efforts to moderate this impact on schools; however the options they have provided the industry have a limited effect. In fact, we understand that APS was able to insure that this rate change did not affect the schools in their Schools and Government Solar Program (they offer solar electricity to E-32L customers at $.03/kwh less than to E-32M customers on the SGSP rate), so it is only fair that a solution is found for others who have already installed solar or wish to do so in the future.

ARISEIA offers several solution options for the Commission to consider. We believe that procedurally the Commission should be able to amend the APS Rate Rider Schedule SGSP that was originally implemented via REST proceedings. These options offer a more reasonable value for distributed solar energy and its many benefits to APS customers, though still below what recent studies in Austin, Texas and the Mid-Atlantic states valued distributed solar energy.

1. Amend the current APS Solar Schools Rate Rider Schedule SGSP to offer E-32L customers who have onsite distributed generation (schools or otherwise) a rate program matching the E32-L formula effective prior to the rate settlement
2. Amend the current APS Solar Schools Rate Rider Schedule SGSP to offer E-32L customers who have onsite distributed generation (schools or otherwise) a rate program matching the current approved E-32M formula
3. Amend the current APS Solar Schools Rate Rider Schedule SGSP to offer E-32L customers (schools or otherwise) to elect the approved GS-Schools L TOU rate in conjunction with a net metering rate matching the 9.3 cents per kwh rate that was the basis for the APS Schools and Government program value for solar electricity.

While each of these options still undervalues distributed solar energy, they should more effectively mitigate the savings customers lost in the APS rate case settlement. The first option restores the rates to the same level at which decisions on solar systems were made. The second option allows APS to charge more for non-solar electricity, but reflects higher levels of distributed solar savings than the first option. This would be attractive to customers having a high percentage of their energy generated by solar. The third option has the benefit of matching solar generation to time periods reflecting high utility system costs, which seems fairer than including a demand pricing signal that isn't necessarily coincident with utility peak demands. APS does not offer net metering with the GS-Schools L TOU rate and have blamed that decision on difficulties in implementing the net metering billing credits across multiple time periods due to billing software limitations. Assuming that the APS billing software is indeed inferior to that used by other utilities both inside and outside of Arizona that offer such rate options, it should still be reasonable for APS to implement a single net metering rate reflecting a blending of generation over the applicable time periods, just as APS developed a single wholesale rate. ARISEIA believes that the 9.3 cents rate APS used as a basis for developing the Solar Schools and Government retail rate is an appropriate choice.

Cost of APS Owned Systems

In the schools and government program APS owned systems are competing with third party owned systems for schools. On certain occasions, APS was able to provide systems with more expensive installation costs than third parties because APS system costs are transferred to rate payers but third party owned systems must provide a PPA rate which is lower than what schools are currently paying. In some situations, these additional costs were due to added carport structures included with the systems rather than rooftop installations. AriSEIA believes that the incremental costs of these structures over rooftop installations should be disallowed.

The staff's recommended auction cap is nearly 3 cents per kWh lower than in 2012, yet APS continues to charge the same rate for solar systems at schools, creating a program that has higher costs to ratepayers. To correct this inequality AriSEIA recommends limiting the cost of APS owned systems to $2.75 per Watt a rate which is higher than that which a PPA structure would allow a school to save money on its electrical bill.

Number of Non-Residential Funding Blocks

In 2012 the Non-residential medium and large segments were allocated 20 MW of incentives with PBI Caps of $0.082 for medium systems and $0.080 for large systems. For 2013 APS is again requesting a PBI CAP of $0.07 /kWh and staff is recommending $0.065 /kWh. In order to maintain a stable, but not growing, non-residential market, AriSEIA respectfully requests to have the four incentive blocks requested by APS instead of the three blocks suggested by staff. It should be noted that this proposal reduces medium and large non-residential PBI costs by 20% from last year.

Conclusion

AriSEIA would like to again thank the Commission for the opportunity to make comments on the Staff Report for the 2013 APS Implementation Plan. We are at an exciting crossroads as an industry right now, and the decisions made in the present case will have huge implications on the future of Arizona's energy economy. Arizona has an opportunity to continue on the path of maintaining a growing and stable solar industry that we have seen in recent years, and achieving all of the benefits that a sustainable Arizona solar industry can and will provide.. We appreciate staff's comments and generally support the ROO and look forward to working with Commissioners, Staff, and other stakeholders to develop a plan that is cost effective to ratepayers and delivers the maximum benefits that solar energy can provide.

Dated this 17 day of January, 2013

By______________________________

Michael L. Neary
Executive Director